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## China, Peoples Republic of

### Livestock and Products

### Semi-Annual Report

### 2007

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**Report Highlights:**

It is uncertain when China will lift its BSE-related import ban on U.S. beef and beef products. FAS Beijing forecasts China's 2008 beef production to increase by three percent to 7.7 MMT. Despite the BSE-related import bans, low production growth combined with strong demand is expected to increase beef imports by four-fold to 30,000 MT. Beef exports are forecast to fall by four percent to 78,000 MT because of short supplies and the appreciating Renminbi. Pork production is expected to grow from 2007's blue ear disease-affected drop by one percent to 42 MMT. Struggling production combined with rapidly growing consumption is expected to push imports to 200,000 MT in 2008. This dynamic will also push exports down by six percent to 330,000 MT.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Annual Report  
Beijing [CH1]  
[CH]

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## Executive Summary

It is uncertain when China will lift its BSE-related ban on U.S. beef and beef products. Although bilateral negotiations continue, no agreement has been reached.

China's livestock production was adversely affected by snowstorms, the worst in 50 years, during the latter half of January and first half of February 2008. See next section for more details. At the same time, both pork and beef were affected by high prices for both inputs and for meat products. High commodity prices from grains and oilseeds and continuing short meat supplies will likely continue through 2008.

FAS Beijing forecasts China's 2008 beef production to increase by three percent to 7.7 MMT. Beef imports are expected to increase nearly four-fold to 30,000 MT because of low domestic production combined with strong demand. Interest in beef could be especially high during the Olympic Games to be held in Beijing in August 2008. Some beef may be supplied by South America since China has lifted its ban on four Brazilian states. Chinese beef exports are forecast to fall by four percent to 78,000 MT because of tight domestic supplies, high domestic beef prices, and appreciating Chinese currency, the Renminbi (RMB).

FAS Beijing forecasts China's 2008 pork production to grow by one percent to 42 MMT (CWE), thus partially reversing a nine percent decline in 2007 caused by blue ear disease. Since the 2007 fall came right after a sharp 2006 fall, 2008 production will likely be 16 percent less in 2005. As a result, the slow recovery in production in the face of strong domestic demand is expected to keep pork prices high. The short supplies are also expected to drive 2008 pork imports up by eight percent to 200,000 MT while pushing pork exports down by six percent to 330,000 MT (CWE) because of low production, higher domestic prices and the appreciating Renminbi, which has risen 13 percent against the U.S. dollar since July 2005.

Note: No data included in this report is official. All official USDA data is available at <http://www.fas.usda.gov/psdonlineonline>.

## Small Winter Storm Effects on Livestock

At the end of January and beginning of February 2008, 25 provinces in China were hit by the worst snowstorms in the last 50 years. The bad weather caused 129 human deaths and resulted in economic losses estimated at RMB 151.7 billion (\$21.4 billion). On February 19, the Ministry of Agriculture (MOA) reported in its *Work Plan to Resume and Develop Livestock Production After Disasters* that as of February 14, the snow storms killed 4.09 million pigs, 393,000 cattle, 1.38 million sheep and goats, 63.1 million birds, and 596,000 rabbits. There were 2,028 breeding animal and poultry farms impacted by the disasters. Despite the large numbers cited in media reports, the storms only reduced the hog population by one percent and the cattle population by 0.3 percent.

Post believes that the severe winter storms will only have a slight and a short-term influence on China's livestock production. These kinds of effects are more easily reversed than outbreaks of diseases such as FMD or swine blue ear disease that kill more animals over time and disrupt production and consumption more profoundly. To assist farmers, China passed The Law of the People's Republic of China on Corporate Income Tax, and the Regulation on Implementing the Corporate Income Tax, both effective on January 1, 2008. According to the Law, domestic and foreign companies enjoy the same tax rate (25 percent). According to the regulation, companies that engage in raising animals and poultry can be exempt from corporate income taxes. Depending on how it is implemented, this measure may further help livestock and poultry sectors.

## Cattle and Beef

### BSE-Related Bans To Continue

It is uncertain when China will reopen its market to U.S. beef and products. Although China has offered to open the market since 2006, its proposals have not been consistent with OIE (World Organization for Animal Health) guidelines on beef trade and BSE that became effective in May 2007 (Please see the China Livestock Annual, CH7076). According to OIE standards, China should open the market to the full range of U.S. beef and beef products from cattle of all ages. Since China did not follow OIE guidelines, the United States refused China's offer to resume imports of U.S. boneless beef (June 30, 2006), bone-in beef, and most bovine offal (August 12, 2007), because China insisted on excluding beef and beef products from cattle over 30 months old. In addition, the offers were not accepted because the Chinese offers also excluded an important offal, the omasum (third bovine stomach).

New rounds of bilateral negotiations took place in December 2007 in Beijing during the Third Strategic Economic Dialogue (SED) and the 19<sup>th</sup> Joint Committee for Commerce and Trade (JCCT). This was followed by joint negotiations of U.S. Trade Representative (USTR) and U.S. Department of Agriculture (USDA) with China's Ministry of Agriculture (MOA) and the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) in January 2008 and with MOA, AQSIQ and MOH (Minister of Health) in February 2008. None of these meetings yielded a way forward on beef. The continuing ban may encourage grey channel trade via South China because of strong demand for U.S. beef while giving ever-wider openings to U.S. competitors such as Australia, New Zealand, Brazil, and Uruguay.

### Production Growth Weak

Although China's beef demand is strong, the slaughter is not likely to increase significantly in 2008. FAS Beijing forecasts China's 2008 beef production at 7.7 MMT, a three percent increase from the previous year. This estimate is smaller than Post's previous estimate in the last livestock annual report (CH7076) because of weather-related losses in 2008. Post also revised China's total cattle beginning year inventory for 2007 downward by one percent because outbreaks of foot and mouth diseases (FMD) in 2005 and 2006 and lower profits caused by increased production costs. The slow increase in beef production combined with strong domestic demand, especially during the Olympic Games, will likely lead to large imports in 2008.

Although FMD gradually came under control in 2007 with the help of government-subsidized vaccines, other factors are slowing beef production. Rising feed prices and production costs, lack of land and pasture forages, increasingly expensive labor, and tight credit have all had their effects on feedlot placements.

High commodity prices have been particularly painful for cattle producers. Year-on-year corn price and soybean meal prices rose by nine percent and 30 percent in 2007. Global high feed grain prices are expected to continue pressure on China's feed grain prices in 2008, further squeezing cattle producers. At the same time, forage has also become more expensive. Extremely hot weather in China in 2007 impacted alfalfa harvests leading to short supplies. This drove a large increase in alfalfa imports despite the high prices. The high domestic alfalfa prices are expected to continue in 2008 because China is expected to have more dry weather this year.

At the same time, credit is tightening. China's central bank, the People's Bank of China, used six interest rate hikes and a higher reserve in 2007 to tighten the monetary supply and cool down speculation and inflation. The same story may continue in 2008.

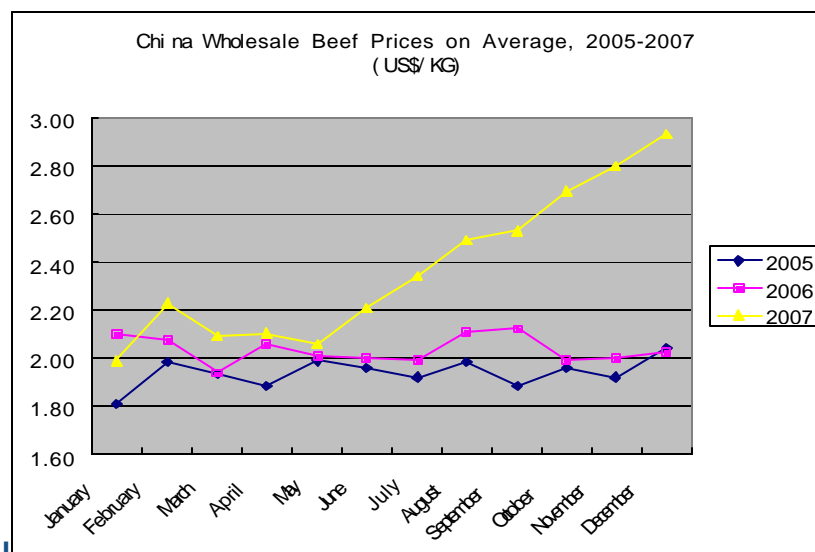
Mass migration is pushing up rural labor costs. According to the second national agricultural census published by the National Statistics Bureau (NSB) on February 21, 2008, more than 131.8 million rural labors moved to urban areas by the end of the 2006 -- with male labors accounting for 64 percent of the total. China's new Labor Contract Law also became effective on January 1, 2008. This law may attract even more rural labor to urban areas because it mandates a package of benefits and salaries that farms have difficulty matching. It also requires that employers to provide proper benefits and salaries, which will increase further production costs.

However, despite higher feed costs, milk production will continue expanding in 2008. This reflects China's stable breeding cattle imports (mainly dairy heifers) that are expected to recover from a sharp decline (62 percent) in 2005. China started subsidizing dairy cow production in 2005-2007 because cow milk has become an increasingly important nutritional product for the Chinese -- and there are few substitutes (Please see the 2007 Dairy Annual Report, CH7080). Additionally, dairy farmers can get RMB 500 subsidy for each Holstein heifer in 2007 and 2008. In response to higher production costs, China will continue focusing on improvements in dairy cattle genetics to get better yields. China will be more careful to avoid importing large number of low quality cows as it did in 2003 and 2004, which were useless as breeding stock. At the same time, China will quicken the slaughter of low-milk yielding cows. As a result, increasing dairy cow slaughter will offset the slow beef cattle slaughter, resulting in a two percent increase in 2008 beef production.

### Beef Prices High in 2008

Chinese beef prices in 2007 increased by 17 percent on average because of short meat supplies caused by swine blue ear disease in the latter half of 2006 and first half of 2007. Post forecasts that China's beef prices will continue climbing in the first half of 2008 as domestic CPI (consumption price index) rises because of domestic inflation caused by commodity prices and other increasing costs.

The National Statistics Bureau (NSB) reported on February 19, 2008 that China's CPI in January 2008 increased by 7.1 percent over the same month in 2007, a record high since 1997. Food prices surged 18.2 percent, with meat and poultry prices up 41.2 percent on average in January. Beef prices are expected to remain high because of strong demand.



FAS Beijing forecasts Chinese beef prices to relax slightly in the second half of the year as swine production recovers gradually. Prices should also ease as more imported beef comes on the market and there is a fall in seasonal consumption after the Olympic Games in August 2008. The government's price controls will also likely mute inflation. The National Development

and Reform Commission (NDRC), China's top economic planning agency, announced in mid January 2008 that it will impose price caps on a range of products, including grain, edible oils, meat, milk, eggs and liquefied petroleum gas. Food producers and sellers must ask government permission before rising prices.

### **Increasing Consumption**

FAS Beijing forecasts China's year-on-year beef consumption in 2008 to increase by four percent to 7.68 MMT. The current estimate is two percent higher than the previous estimate in the last livestock annual report (CH7076) because of high economic growth, increased incomes, increased domestic slaughter, and large imports. In the last five years from 2003 to 2007, China's GDP growth increased by 10, 10.1, 10.4, 11.1 and 11.4 percent respectively. It is expected to increase by 10.7 percent in 2008. Chinese urban per capita disposable incomes in 2007 increased by 12 percent to RMB13,786 (\$1,942), while per capita rural cash incomes increased by 10 percent to RMB4,140 (\$583). These changes have made outdoor dining or buying ready-to-eat products from supermarkets affordable. Most of the increase in consumption is expected to come from dining away from home and ready-to-eat products. Many Chinese do not cook beef at home because it takes more time and beef is used in fewer traditional dishes than pork and poultry.

### **Increasing Beef Imports**

FAS Beijing forecasts China's 2008 beef imports to increase nearly four-fold to 30,000 MT (CWE). This sharp rise from 2007's 8,000 MT of carcass weight equivalence (CWE) is because of China's slow domestic production and strong demand, with a peak likely around the Olympic Games. Some imported beef will go to state strategic reserves. Post estimates China's year-on-year beef offal imports in 2008 to remain at least at 12,000 MT (production weight), the same level as the previous year. This includes both direct shipments and indirect shipments via Hong Kong. China has to import high-quality beef for high-end hotels and restaurants because domestic high quality beef production is very small.

Imports are expected to shift sharply in favor of inexpensive beef from South America, which can be half the price of U.S. product. In 2007, China's average beef and veal import price was \$4,663 per ton from the world -- but only \$2,309 per ton from Uruguay. The average price of beef offal imports was \$1,465 per ton from the world, but only \$1,195 per ton from Uruguay. According to the Chinese meat industry, the President of the Brazilian Confederation of Agriculture and Livestock (CNA) confirmed on December 18, 2007 that China and Brazil reached an agreement in November 2007. Under this arrangement, China will import boneless beef from four Brazilian States, Rio Grande de Sul, Santa Catarina, Acre, and Rondonia. Industry sources claimed that the first shipment has already been sent.

Strong demand and short domestic supply, combined with China's ban on beef imports from the United States have encouraged grey channel trade via South China. In 2007, Hong Kong re-exported 435 MT of U.S. beef valued at HK\$5.58 million (About US\$1=HK\$7) and 942 MT of U.S. beef offal valued at HK\$3.425 million to Mainland China. This trend is expected to continue in 2008 due to the same reason.

China's live cattle, frozen bovine embryos, and semen imports should move in the same direction as Post's previous forecast in the last livestock annual report (CH7076). With U.S. and Canadian beef absent from the Chinese market for five years because of BSE-related restrictions, Australia and New Zealand have dominated China's imports of both live cattle and beef supplies, accounting for almost 100 percent and 68 percent respectively via direct

shipments in 2007. With many major suppliers blocked from the Chinese market, the Chinese are trying to find new trading partners to reduce prices.

### **Decreasing Beef Exports**

This forecast revised China's live cattle and beef exports in 2008 to fall by four percent. This change came from the last livestock annual report because of a shortfall in domestic meat supplies caused by the swine blue ear disease in China in 2006 and 2007. Two other factors may also explain this change. Live cattle exports are allocated by export quota issued by the Ministry of Commerce (MOFCOM) each year. Since the quotas are allocated by lottery, it prevents export prices from going very high. With higher production costs have squeezing profits; some traders are not interested in exports. In addition, the rising Renminbi also makes exports more costly.

## Cattle and Beef PS&amp;D Tables

## PSD Table

## Country

China, Peoples  
Republic of  
Meat, Beef  
and Veal

## Commodity

(1000 HEAD)(1000 MT  
CWE)(PERCENT)(HEAD)(KG)

	2006 USDA Official	Revised Post Estimate	Post Estimate New	2007 USD A Official	Estimate Post Estimate	Post Estimate New	2008 USDA Official	Forecast Post Estimate	Post Estimate New
Market Year Begin		01-2006	01-2006		01-2007	01-2007		01-2008	01-2008
Slaughter (Reference)	56029	56029	56029	58450	58450	58760	60000	60000	60000
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	7492	7492	7050	7850	7850	7480	8065	8065	7730
Intra-EU Imports	0	0	0	0	0	0	0	0	0
Other Imports	2	9	2	5	9	8	6	10	30
Total Imports	2	9	2	5	9	8	6	10	30
Total Supply	7494	7501	7052	7855	7859	7488	8071	8075	7760
Intra EU Exports	0	0	0	0	0	0	0	0	0
Other Exports	85	99	85	99	102	81	102	104	78
Total Exports	85	99	85	99	102	81	102	104	78
Human Dom. Consumption	7409	7402	6967	7756	7757	7407	7969	7971	7682
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	7409	7402	6967	7756	7757	7407	7969	7971	7682
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	7494	7501	7052	7855	7859	7488	8071	8075	7760
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	0	0	0
Inventory Balance	0	0	0	0	0	0	0	0	0
Weights	134	134	126	134	134	127	134	134	129
Production Change	5	5	5	5	5	6	3	3	3
Import Change	0	0	0	150	0	300	20	11	275
Export Change	12	9	12	16	3	-5	3	2	-4
Trade Balance	83	90	83	94	93	73	96	94	48
Consumption Change	5	5	5	5	5	6	3	3	4
Population	0	0	0	0	0	0	0	0	0
Per Capita Consumption	0	0	0	0	0	0	0	0	0



## PSD Table

## Country

China, Peoples  
Republic of  
Meat, Beef and  
Veal

## Commodity

(1000 HEAD)(1000 MT  
CWE)(PERCENT)(HEAD)(K  
G)

	2006	Revised		2007	Estimate		2008	Forecast	
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01-2006	01-2006		01-2007	01-2007		01-2008	01-2008
Slaughter (Reference)	56029	56029	56029	58450	58450	58760	60000	60000	60000
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	7492	7492	7050	7850	7850	7480	8065	8065	7730
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Other Exports	85	99	85	99	102	81	102	104	78
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Human Dom. Consumption	7409	7402	6967	7756	7757	7407	7969	7971	7682
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Total Distribution	7494	7501	7052	7855	7859	7488	8071	8075	7760
CY Imp. from U.S.	0	0	0	0	0	0	0	0	0
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	0	0	0
Inventory Balance	0	0	0	0	0	0	0	0	0
Weights	134	134	126	134	134	127	134	134	129
Production Change	5	5	5	5	5	6	3	3	3
Import Change	0	0	0	150	0	300	20	11	275
Export Change	12	9	12	16	3	-5	3	2	-4
Trade Balance	83	90	83	94	93	73	96	94	48
Consumption Change	5	5	5	5	5	6	3	3	4
Population	0	0	0	0	0	0	0	0	0
Per Capita Consumption	0	0	0	0	0	0	0	0	0

## Cattle and Beef Trade Matrix

China Live Cattle Imports, 2005-2007 (Number of Head)				
	Jan-Dec	Jan-Dec	Jan-Dec	% Change
	Quantity	Quantity	Quantity	Jan - Dec
	2005	2006	2007	2007/06
Origin				
World	49,586	15,072	14,744	-2.18
Australia	35,517	12,265	11,344	-7.51
New Zealand	14,069	2,802	3,400	21.34
United States	0	0	0	0
Canada	0	0	0	0
Other	0	5	0	-100.00
HS Code: 010210, 010290				
Source: GTA China Customs Statistics				

China Beef and Veal Direct Imports, 2005-2007 (Metric Tons)				
	Jan-Dec	Jan-Dec	Jan-Dec	% Change
	Quantity	Quantity	Quantity	Jan - Dec
	2005	2006	2007	2007/06
Origin				
World	1,252	1,388	3,924	182.71
Australia	1,132	1,034	2,195	112.28
Uruguay	25	110	920	736.36
New Zealand	10	234	457	95.30
Brazil	0	7	333	4657.14
United States	0	0	0	0.00
Canada	0	0	0	0.00
Other	85	3	19	533.33

Hong Kong Beef and Veal Re-Exports to China, 2005-2007 (Metric Tons)				
	Jan-Dec	Jan-Dec	Jan-Dec	% Change
	Quantity	Quantity	Quantity	Jan - Dec
	2005	2006	2007	2007/06
World	729	114	1997	1651.75
Brazil	138	60	718	1096.67
United States	1	0	435	0.00
Australia	144	0	292	0.00
Argentina	109	0	219	0.00
Netherlands	0	0	47	0.00
New Zealand	168	0	38	0.00
Canada	96	30	23	-23.33
Other	71	24	225	837.50
HS Code: 020110, 020120, 020130, 020210, 020220, 020230, 021020 and 160250				
Source: WTA Hong Kong Census and Statistics Department				

China Live Cattle Exports, 2005-2007 (Number of Head)				
				% Change
	Jan-Dec	Jan-Dec	Jan-Dec	Jan - Dec
	Quantity	Quantity	Quantity	Quantity
	2005	2006	2007	2007/06
World	54,129	54,389	50,888	-6.44
Hong Kong	48,003	45,957	42,275	-8.01
Macau	5,746	5,898	5,517	-6.46
Malaysia	0	0	1,813	0.00
Korea North	380	20	450	2150.00
Mongolia	0	167	143	-14.37
Saudi Arabis	0	2,217	0	-100.00
Other	0	130	690	430.77
HS Code: 010210, 010290				
Source: GTA China Customs Statistics				

China Beef and Veal Exports, 2005-2007 (Metric Tons)				
				% Change
	Jan-Dec	Jan-Dec	Jan-Dec	Jan - Dec
	Quantity	Quantity	Quantity	Quantity
	2005	2006	2007	2007/06
World	54,586	60,849	58,206	-4.34
Hong Kong	14,862	15,051	15,815	5.08
Korea South	12,139	14,080	10,296	-26.88
Japan	14,747	10,439	8,365	-19.87
Jordan	4,558	4,558	5,530	21.33
Kuwait	2,606	3,668	3,825	4.28
Malaysia	1,186	2,371	2,631	10.97
Lebanon	571	2,269	1,937	-14.63
Kyrgyzstan	20	312	1,925	516.99
Indonesia	1,345	1,502	1,188	-20.91
Korea North	1,142	1,602	913	-43.01
United Arab Emirates	270	169	761	350.30
Macau	193	297	338	13.80
Singapore	154	88	0	-100.00
Russia	219	73	0	-100.00
Other	574	4,370	4,682	7.14
HS Code: 020110, 020120, 020130, 020210, 020220, 020230, 021020 and 160250				
Source: GTA China Customs Statistics				

China Wholesale Beef Prices On Average 2004-2007 (US\$/KG)					
					% Change
	2004	2005	2006	2007	2007/06
January	1.84	1.81	2.10	1.99	-5.24
February	1.79	1.98	2.08	2.23	7.21
March	1.82	1.93	1.94	2.09	7.73
April	1.79	1.88	2.06	2.10	1.94
May	1.86	1.99	2.01	2.06	2.49
June	1.84	1.96	2.00	2.21	10.50
July	1.83	1.92	1.99	2.34	17.59
August	1.83	1.98	2.11	2.49	18.01
September	1.77	1.88	2.12	2.53	19.34
October	1.83	1.96	1.99	2.69	35.18
November	1.80	1.92	2.00	2.80	40.00
December	1.78	2.04	2.03	2.93	44.33
Source: The Ministry of Agriculture					

China Import Tariffs on Cattle and Beef, Effective January 1-Dec 31, 2008					
		General	MFN	V.A.T. 1/	Effective
					Rate
					(mfn+vat)
0102.1000	Cattle, breeding	0%	0%	13%	13.0%
0102.9000	Cattle, other	30%	10%	13%	24.3%
	Beef, Fresh or Chilled				
0201.1000	Carcass & half-carcass	70%	20.0%	13%	35.6%
0201.2000	Other cuts with bones	70%	12.0%	13%	26.6%
0201.3000	Cuts, boneless	70%	12.0%	13%	26.6%
	Beef, Frozen				
0202.1000	Carcass & half-carcass	70%	25%	13%	41.3%
0202.2000	Other cuts with bones	70%	12.0%	13%	26.6%
0202.3000	Cuts, boneless	70%	12.0%	13%	26.6%
Source: China Customs					
Source: China Customs Statistics					
Note: The tariffs do not change from the previous year.					

## Swine and Pork

### Production Recovering Slowly

FAS Beijing forecasts China's 2008 pork production to recover by only one percent to 42 MMT. Despite this anticipated improvement, 2008 production will likely be 16 percent less in 2005 because of major declines in 2007 and 2006 of around nine percent a year. The 2008 recovery is slower than Post's previous forecast in the last livestock annual report (CH7076) because of heavy snowstorms at the end of January and beginning of February 2008. By mid-February, the snow storms killed 4.09 million head of pigs and impacted 1,200 swine breeding farms at various levels. In several regions, swine production suffered because pig pens were destroyed by snow. Despite this setback, Post forecasts that damaged pig farms will resume full operation in the latter half of 2008. This slow recovery and low production will drive continued large pork imports in 2008, providing a very good market opportunity for U.S. exporters.

China's pork production has been frustrated recently by deadly swine blue ear disease outbreaks during the latter half of 2006 and the first half of 2007. Post's estimate for China's 2007 beginning-year sow stocks and piglet crop production for 2007, which declined five and seven percent to 46.5 million head and 630 million head respectively, remains the same as in the previous livestock annual report (CH7076). Unit carcass weight in 2007 was lighter because swine farmers were scared by the blue ear disease into selling quickly. Many farmers hurried animals to slaughter to avoid unexpected losses.

Recently, MOA announced that China's pork production in 2007 was 51.2 MMT, a 1.5 percent decrease from 2006. However, given the sharp price increases in 2007, post believes it is very likely that mere 1.5 percent fall in production could result in nearly doubling Chinese pork prices. In addition, the 2007 decrease must have been substantial to drive other meat prices higher because of substitution out of newly expensive pork. One possible explanation for the difference between industry and government numbers is that blue ear disease hit most backyard or small swine operations the hardest because of their poor disease control. The data sometimes do not capture these informal herds, many of which are consumed on-farm or sold to small private slaughterhouses for cash. Although commercial operations are rapidly increasing in number, in 2007 and early 2008 production increases were more than offset by the falling number of operations.

According to the swine and meat processing industries, 50-60 percent of backyard operations have left swine production. (Note: Small and backyard operations are defined as farms with less than 50 swine.) At the same time, the number of commercial farms has increased 20 percent. Both of these trends have accelerated sharply in the last couple of years. This dramatic fall has been accompanied by entry of some large feed companies, pork processing plants, and grain players into swine production. They are partly attracted by high pork prices and government subsidy policies to support pork production. The decline of small operations and the establishment of a swine futures market in 2007 in Dalian have also drawn interest to the sector. Over time, this will translate into more efficient swine and pork production and more stable pork prices in the future. As large commercial swine and pork processing companies gradually fill the gap left over by the withdrawal of backyard and small operations with more standardized production, pork supply and price volatility should fall in the future.

According to China Grain and Oil Information Center, China's corn planted area and production in the 2007/08 grain year are estimated at 28 million hectares and 148 MMT, a four percent and a 1.7-percent increase respectively. Barring problems with the harvest, this might help Chinese swine farmers by loosening supplies. However, relief may not be

forthcoming. In the last couple of years, natural disasters such as extreme draughts or floods have become more common in China. The China Meteorology Administration reported recently that China's weather in 2008 is expected to be very dry. As of February 25, 2008, 11 million hectares of arable land suffered droughts, with 1.9 million head of livestock facing a lack of water. If weather prognosis continues to be poor, local corn prices may stay high. It may also put pressure on livestock producers.

Outside the feed issue, there are other increasing constraints in swine and pork production. For example, the migration of more than 130 million Chinese to the cities has caused a falling labor supply in the countryside. Industrialization and urbanization have attracted million to the cities, especially in coastal areas. According to the Green Book on Population and Labor published by the China Academy of Social Sciences in 2007, three-fourths of Chinese villages have no extra young to emigrate to cities. Even for those who stay on the farm, paid work in the village is more attractive than hog farming. In one survey, off-farm work accounted for 70 percent of income as wages increased by ten percent a year. The labor shortage could become a constraint to the development of the swine sector. On January 18, 2008, the National Statistics Bureau announced that China's PPI in January was up 7.1 percent compared with January 2007, the largest monthly rise in three years. Price increases for water, electricity, transportation, energy, and labor combined with general inflation and the risk that blue ear disease and other problems are not completely under control, will likely continue constraining pork production over the next couple of years.

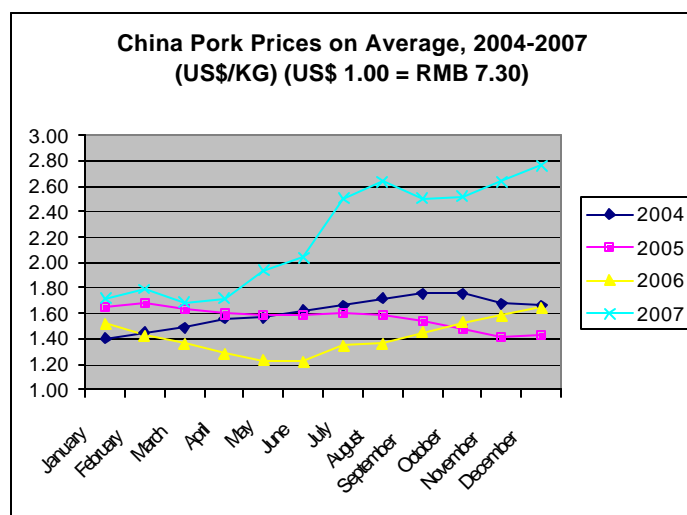
Despite the problems, hog production continues to evolve. Most recently, the ongoing modernization of the sector have recently resulted in two 10-million-hog development projects. One is a joint-venture between U.S. Whiteshire Hamroc Company and China Tangrenshen Group in Hunan Province. The two sides have signed two contracts in January and February 2008 to import 2,000 U.S. breeding pigs. The other project is sponsored by COFCO, China's top state-owned grain import and export player, in Hubei Province. However, the projects will take about two to three years to complete. Increasing commercial farms will push up demand for feed corn production but in China additional arable land is limited. To run these facilities, China must either expand feed corn plantings (which will be very difficult) or increase feed grain imports. As hog production modernizes, there will be increasing demand for other imported feed ingredients.

Another factor is that China is strengthening its meat quality control program. Some supermarkets in large cities have requested trace-back information of animal production and processing. With the public increasingly aware of food safety issues, Chinese consumers are increasingly unwilling to trust backyard operations.

### **Subsidies Favor Large Operations**

Post believes that backyard operations will continue shrinking not only because the blue ear disease and other problems but also because of current government subsidy policies. During 1 July 2006 – 30 June 2007, the government provided RMB 50 (\$7) cash for swine farmers for each producing sow benefitting approximately 46.89 million head. The project expanded to RMB100 (\$14.1) during 1 July 2007 – 30 June 2009. The government also provided subsidies for producing sow insurance with each head cost at RMB60 (\$8.5) with the government paying 80 percent of the cost. This project has benefited 24.59 million producing sows. In 2007, the government invested RMB 2.5 billion (\$352million) to support standardized animal production. The same amount will be spent in 2008. To ease farmers' cash flow, the bank loan pay back period was extended from one to three years for swine farmers if they have difficulties. Backyard and small-sized operations are eligible to receive benefits.

## Pork Prices Likely Stay High



China's pork prices, which have been cited as a major contributor to China's recent inflation in the second half of 2007, soared 69 percent in February 2008. Since China's domestic pork production is not expected to recover until mid to late 2008, the pork shortfall coupled with strong demand will likely to keep prices high until mid 2008. To reduce inflation, the government has imposed a cap on a series of food prices, including pork. Processing companies are required to report and get approval before any new price hikes. At the same time, the government subsidizes low-income consumers RMB20-30 (\$2.7-4.3) per

person per month for six months. To ease the supply gap, China has quickened pork imports into strategic reserves. The high pork prices are expected to become stable or even decrease slightly when swine and pork production improves in the second half 2008.

## Recovering Consumption

Post forecasts China's 2008 pork consumption to grow by one percent to 41.9 MMT, still below 2006 levels because of low pork production. Pork is still the most preferred meat in China because it can be prepared easily at home and it fits into the local diet well. After blue ear disease outbreaks fell considerably in the latter half of 2007, consumers' confidence in pork consumption recovered quickly. The negative news of three cases of human infection with the highly pathogenic avian influenza in China in February 2008 (two already died) may push consumers shift back to pork more quickly this year.

## Increasing Imports, U.S. Plants Relisted

Post forecasts China's pork imports in 2008 at 200,000 MT, an eight percent increase from the previous year's two-fold increase. The United States will continue to be China's largest pork supplier. China's total pork imports in 2007 were 186,000 (CWE) with U.S. share accounting for 47 percent. U.S. market share in 2008 is expected at the same percentage. Another major reason for large imports from the United States is that China has made its currency regime more flexible by letting the Yuan appreciate steadily. This growth has been pushed by the Chinese supply-demand situation, despite a series of restrictive sanitary measures.

One of the most challenging has been China's zero tolerance of ractopamine in pork, despite strong scientific evidence that the compound is safe. Most recently, ractopamine advanced to Step Eight in the Codex Alimentarius Commission approval process, the last step before final approval. Despite this, detections of ractopamine have resulted in U.S. pork plants being denied permission to send product to China ("delisting"). AQSIQ sent a technical group to the United States to check U.S. pork plants in October 2007. After they returned, six out seven delisted pork plants were relisted.

MOA and AQSIQ jointly announced on January 15, 2008 (Memo 963) to lift the import restrictions for German pork, which was placed several years ago in response to outbreaks of Classical Swine Fever (CSF) in commercial farms in Germany. The veterinary authorities of the two countries will work on an inspection and quarantine protocol, and also identify a list of approved plants for exports. First shipments are expected to start towards the end of 2008. Post believes that German exports would not threaten U.S. pork exports, because China is not Germany's traditional export market. German pork exports to China in 2002, the highest level in recent years, was 5,449 MT accounting for only two percent of China's total imports.

U.S. exports will likely go to China's strategic reserves for at least the next 2-3 years, while German exports are expected to go to the retail sector. Additionally, German pork prices may not be competitive as the U.S. pork prices.

### Falling Exports

FAS Beijing forecasts China's live swine and pork exports in 2008 to decrease by four and six percent to 1.55 million head and 330,000 MT (CWE) respectively. This is a reversal from Post's previous forecast in the last livestock annual report (CH7076) and is a result of production constraints caused by snow storms, slow production recovery, and strong local demand.

For live swine exports, Hong Kong and Macau are the two dominant export markets accounting for 99.9 percent in 2007. This pattern will not change in 2008. China's live swine exports to Hong Kong and Macau, like cattle, are allocated by MOFCOM export quota and announced by the end of each year. MOFCOM announced on December 15, 2007 that China's 2008 large swine export quota to Hong Kong at 1.32 million head and to Macau at 150,000 head respectively, and the export quota for medium swine to Hong Kong at 67,814 head and to Macau at 2,400 head respectively. If the export companies that have the allocated quota cannot fill the quotas, MOCOM will re-allocate the quotas in the latter half of the year. Post's forecast number for China's 2008 live swine exports is very close to MOFCOM announced export quotas.

Pork exports are expected to further decrease by six percent from the previous year's 36 percent decline. The blue ear disease and unexpected fast appreciation of the RMB against the U.S. Dollar will continue to constrain China's exports.



## Swine and Pork PS&amp;D Table

## PSD Table

## Country

China, Peoples  
Republic of  
Animal Numbers,  
Swine

(1000 HEAD)(PERCENT)

Commodity	2006 USDA Official	Revised Post Estimate	Post Estimate New	2007 USDA Official	Estimate Post Estimate	Post Estimate New	2008 USDA Official	Forecast Post Estimate	Post Estimate New
<b>Market Year Begin</b>		01-2006	01-2006		01-2007	01-2007		01-2008	01-2008
Total Beginning Stocks	50334 <sup>8</sup>	503348	503348	494407	494407	494407	469758	469758	464801
Sow Beginning Stocks	48930	48930	48930	46500	46500	46500	47500	47500	46000
Production (Pig Crop)	68000 <sup>0</sup>	680000	680000	630000	630000	630000	649000	649000	640000
Intra-EU Imports	0	0	0	0	0	0	0	0	0
Other Imports	2	2	2	1	1	3	2	2	4
Total Imports	2	2	2	1	1	3	2	2	4
Total Supply	1E+06	1183350	1183350	1E+06	1124408	1124410	111876 <sup>0</sup>	1118760	1104805
Intra EU Exports	0	0	0	0	0	0	0	0	0
Other Exports	1723	1723	1723	1650	1650	1609	1700	1700	1550
Total Exports	1723	1723	1723	1650	1650	1609	1700	1700	1550
Sow Slaughter	0	0	0	0	0	0	0	0	0
Other Slaughter	68050 <sup>4</sup>	680504	680504	647000	647000	652000	644100	644100	644645
Total Slaughter	68050 <sup>4</sup>	680504	680504	647000	647000	652000	644100	644100	644645
Loss	6716	6716	6716	6000	6000	6000	2500	2500	5000
Ending Inventories	49440 <sup>7</sup>	494407	494407	469758	469758	464801	470460	470460	453610
Total Distribution	1E+06	1183350	1183350	1E+06	1124408	1124410	111876 <sup>0</sup>	1118760	1104805
CY Imp. from U.S.	1	1	1	0	0	0	1	1	2
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	0	0	0
Inventory Balance	-8941	-8941	-8941	-24649	-24649	-29606	702	702	-11191
Inventory Change	4	4	4	-2	-2	-2	-5	-5	-6
Sow Change	9	9	9	-5	-5	-5	2	2	-1
Production Change	7	7	7	-7	-7	-7	3	3	2
Production to Sows	13.9	13.9	13.9	13.5	13.5	13.5	13.7	13.7	13.9
Trade Balance	1721	1721	1721	1649	1649	1606	1698	1698	1546
Slaughter to Inventory	135	135	135	131	131	132	137	137	139

## PSD Table

## Country

China, Peoples  
Republic of

## Commodity

Meat,  
Swine(1000 HEAD)(1000 MT  
CWE)(PERCENT)

	2006 USDA Official	Revised Post Estimate	Post Estimate New	2007 USDA Official	Estimate Post Estimate	Post Estimate New	2008 USDA Official	Forecast Post Estimate	Post Estimate New
Market Year Begin		01-2006	01-2006		01-2007	01-2007		01-2008	01-2008
Slaughter (Reference)	68050	68050	68050	6E+0	647000	652000	64410	644100	644645
	4			5			0		
Beginning Stocks	0	0	0	0	0	0	0	0	0
Production	51972	51972	45825	47000	47000	41609	48000	48000	42026
Intra-EU Imports	0	0	0	0	0	0	0	0	0
Other Imports	90	90	90	130	130	186	150	150	200
Total Imports	90	90	90	130	130	186	150	150	200
Total Supply	52062	52062	45915	47130	47130	41795	48150	48150	42226
Intra EU Exports	0	0	0	0	0	0	0	0	0
Other Exports	595	595	544	440	440	350	450	450	330
Total Exports	595	595	544	440	440	350	450	450	330
Human Dom. Consumption	51467	51467	45371	46690	46690	41445	47700	47700	41896
Other Use, Losses	0	0	0	0	0	0	0	0	0
Total Dom. Consumption	51467	51467	45371	46690	46690	41445	47700	47700	41896
Ending Stocks	0	0	0	0	0	0	0	0	0
Total Distribution	52062	52062	45915	47130	47130	41795	48150	48150	42226
CY Imp. from U.S.	43	43	41	44	30	88	0	30	94
CY. Exp. to U.S.	0	0	0	0	0	0	0	0	0
Balance	0	0	0	0	0	0	0	0	0
Inventory Balance	0	0	0	0	0	0	0	0	0
Weights	76	76	67	73	73	64	75	75	65
Production Change	4	4	4	-10	-10	-9	2	2	1
Import Change	-9	-8	-9	44	44	107	15	15	8
Export Change	19	8	19	-19	-26	-36	2	2	-6
Trade Balance	505	505	454	310	310	164	300	300	130
Consumption Change	4	4	4	-10	-9	-9	2	2	1

## Swine and Pork Trade Matrix

China Swine Imports, 2005-2007 (Number of Head)				
				% Change
	Jan-Dec	Jan-Dec	Jan-Dec	Jan - Dec
Origin	2005	2006	2007	2007/06
World	3,238	2,489	2,506	0.68
Canada	1,032	503	1,780	253.88
Australia	0	0	270	0.00
United Kingdom	0	266	262	-1.50
United States	1,892	1,038	194	-81.31
France	314	0	0	0.00
Denmark	0	682	0	-100.00
Other	0	0	0	0.00
HS Code: 010310, 010391, 010392				
Source: GTA China Customs Statistics				

China Pork Imports By Reporting Countries Exporting Statistics, 2005-2007 (Metric Tons)				
				% Change
	Jan-Dec	Jan-Dec	Jan-Dec	Jan - Dec
Reporting Country/Area	2005	2006	2007	2007/06
Reporting Total	67,726	69,445	143,446	106.56
United States	37,343	31,866	67,870	112.99
Canada	13,880	15,870	17,576	10.75
Hong Kong	6,028	17,136	53,874	214.39
France	2,627	2,021	3,767	86.39
Denmark	2,789	629	0	-100.00
Belgium	380	669	-	-100.00
Other	4,679	1,254	359	-71.37
HS Code: 020311, 020312, 020319, 020321, 020322, 020329, 021011 021012, 021019, 160241, 160242 and 160249				
Source: GTA Reporting Countries Customs Statistics				

China Swine Exports, 2005-2007 (Number of Head)				
				% Change
	Jan-Dec	Jan-Dec	Jan-Dec	Jan - Dec
	Quantity	Quantity	Quantity	Quantity
	2005	2006	2007	2007/06
World	1,768,772	1,722,540	1,609,008	-6.59
Hong Kong	1,646,605	1,602,222	1,491,689	-6.90
Macau	120,869	117,382	116,712	-0.57
Korea North	1,198	2,294	347	-84.87
Other	100	642	260	-59.50
HS Code: 010310, 010391, 010392				
Source: GTA China Customs Statistics				

China Pork Exports, 2005-2007 (Metric Tons)				
	Jan-Dec	Jan-Dec	Jan-Dec	% Change
	Quantity	Quantity	Quantity	Jan - Dec
	2005	2006	2007	2007/06
World	385,967	418,788	269,099	-35.74
Hong Kong	114,375	129,965	107,431	-17.34
Japan	68,714	79,133	74,430	-5.94
Korea North	61,609	75,364	21,166	-71.91
Philippines	9,354	13,571	9,525	-29.81
Albania	6,224	6,783	5,158	-23.96
Vietnam	874	29,322	9,623	-67.18
Malaysia	12,249	11,258	7,934	-29.53
Singapore	16,327	12,748	6,456	-49.36
Kyrgyzstan	1,023	15,522	10,172	-34.47
Macau	5,411	6,242	5,170	-17.17
Kazakhstan	7,686	5,420	2,282	-57.90
Indonesia	3,038	3,032	1,291	-57.42
Russia	43,275	6,984	822	-88.23
Moldova	13,512	2,041	294	-85.60
Angola	150	2,341	359	-84.66
Korea South	6,715	8,006	433	-94.59
Georgia	1,446	2,195	0	-100.00
Ukraine	5,245	630	0	-100.00
Other	8,740	8,231	6,553	-20.39
HS Code: 020311, 020312, 020321, 020322, 020329, 021011 021012, 021019,				
160241, 160242 and 160249				
Source: GTA China Customs Statistics				

China Wholesale Pork Prices On Average, 2004-2007 (US\$/KG) (RMB7.30 =US\$1.00)					
					% Change
	2004	2005	2006	2007	2007/06
January	1.40	1.65	1.52	1.72	13.16
February	1.45	1.69	1.43	1.79	25.17
March	1.49	1.63	1.36	1.69	24.26
April	1.56	1.60	1.29	1.72	33.33
May	1.57	1.59	1.23	1.93	56.91
June	1.62	1.59	1.22	2.04	67.21
July	1.66	1.61	1.35	2.51	85.93
August	1.72	1.59	1.37	2.64	92.70
September	1.75	1.55	1.46	2.51	71.92
October	1.75	1.48	1.53	2.52	64.71
November	1.67	1.42	1.59	2.63	65.41
December	1.66	1.43	1.65	2.77	67.88
Source: The Ministry of Agriculture					

China Wholesale Hog Prices On Average, 2004-2007 (US\$/KG) (US\$1.00 = RMB 7.30)					
					% Change
	2004	2005	2006	2007	2007/06
January	0.84	1.05	0.82	1.02	24.39
February	0.88	1.05	0.75	1.08	44.00
March	0.92	0.99	0.71	1.03	45.07
April	0.96	0.94	0.57	1.04	82.46
May	0.96	0.94	0.68	1.16	70.59
June	1.02	0.89	0.65	1.42	118.46
July	1.06	0.86	0.75	1.63	117.33
August	1.10	0.87	0.84	1.67	98.81
September	1.13	0.87	0.94	1.70	80.85
October	1.12	0.77	0.94	1.71	81.91
November	1.05	0.74	0.98	1.76	79.59
December	1.02	0.76	1.00	1.91	91.00
Source: The Ministry of Agriculture					

China Wholesale Piglet Prices On Average, 2004-2007 (US\$/KG) (US\$ 1.00 = RMB 7.30)					
					% Change
	2004	2005	2006	2007	2007/06
January	1.20	1.44	0.97	0.98	1.03
February	1.05	2.05	0.74	0.96	29.73
March	1.13	1.71	1.00	1.05	5.00
April	1.71	1.13	0.68	1.02	50.00
May	1.21	1.25	0.63	1.38	119.05
June	1.31	1.56	0.60	1.30	116.67
July	1.48	1.32	0.60	1.73	188.33
August	1.51	1.29	0.66	1.92	190.91
September	1.66	0.87	0.81	2.03	150.62
October	1.59	0.76	0.82	2.35	186.59
November	1.50	0.76	0.75	2.31	208.00
December	1.52	0.79	0.86	2.76	220.93
Source: The Ministry of Agriculture					

China Wholesale Pork Prices On Average, 2004-2007 (US\$/KG)					
					% Change
	2004	2005	2006	2007	2007/06
January	1.40	1.65	1.52	1.72	13.16
February	1.45	1.69	1.43	1.79	25.17
March	1.49	1.63	1.36	1.69	24.26
April	1.56	1.60	1.29	1.72	33.33
May	1.57	1.59	1.23	1.93	56.91
June	1.62	1.59	1.22	2.04	67.21
July	1.66	1.61	1.35	2.51	85.93
August	1.72	1.59	1.37	2.64	92.70
September	1.75	1.55	1.46	2.51	71.92
October	1.75	1.48	1.53	2.52	64.71
November	1.67	1.42	1.59	2.63	65.41
December	1.66	1.43	1.65	2.77	67.88
Source: The Ministry of Agriculture					

China Wholesale Hog Prices On Average, 2004-2007 (US\$/KG)					
					% Change
	2004	2005	2006	2007	2007/06
January	0.84	1.05	0.82	1.02	24.39
February	0.88	1.05	0.75	1.08	44.00
March	0.92	0.99	0.71	1.03	45.07
April	0.96	0.94	0.57	1.04	82.46
May	0.96	0.94	0.68	1.16	70.59
June	1.02	0.89	0.65	1.42	118.46
July	1.06	0.86	0.75	1.63	117.33
August	1.10	0.87	0.84	1.64	95.24
September	1.13	0.87	0.94	1.70	80.85
October	1.12	0.77	0.94	1.71	81.91
November	1.05	0.74	0.98	1.76	79.59
December	1.02	0.76	1.00	1.91	91.00
Source: The Ministry of Agriculture					

China Wholesale Piglet Prices On Average, 2004-2007 (US\$/KG)					
					% Change
	2004	2005	2006	2007	2007/06
January	1.20	1.44	0.97	0.98	1.03
February	1.05	2.05	0.74	0.96	29.73
March	1.13	1.71	1.00	1.05	5.00
April	1.71	1.13	0.68	1.02	50.00
May	1.21	1.25	0.63	1.38	119.05
June	1.31	1.56	0.60	1.30	116.67
July	1.48	1.32	0.60	1.73	188.33
August	1.51	1.29	0.66	1.93	192.42
September	1.66	0.87	0.81	2.03	150.62
October	1.59	0.76	0.82	2.35	186.59
November	1.50	0.76	0.75	2.31	208.00
December	1.52	0.79	0.86	2.76	220.93
Source: The Ministry of Agriculture					

China Import Tariffs of Hogs and Pork, Effective on 1 January-30 December, 2008					
		General	MFN	V.A.T.	Effective Rate
Live swine					(mfn+vat)
0103.1000	Pure-bred breeding Swine	0%	0%	13%	13.0%
0103.9110	Other swine, weighing less than 10 kg	50%	10%	13%	24.3%
0103.9120	Other swine, weighing 10 kg or more, but less than 50 kg	50%	10%	13%	24.3%
0103.9200	Other swine, weighing 50 kg or more	50%	10%	13%	24.3%
Pork					
0203.1110	Pork of sucking pigs, fresh or chilled	70%	20%	13%	35.6%
0203.1190	Other pork, carcass or half carcass, fresh or chilled	70%	20%	13%	35.6%
0203.1200	Hams, shoulders and cuts thereof, with bones in	70%	20%	13%	35.6%
0203.1900	Other pork, fresh or chilled	70%	20%	13%	35.6%
0203.2110	Pork of sucking pig, carcass or half carcass, frozen	70%	12%	13%	26.6%
0203.2190	Other pork, carcass or half carcass, frozen	70%	12%	13%	26.6%
0203.2200	Hams, shoulders and cuts thereof, with bones in	70%	12%	13%	26.6%
0203.2900	Other frozen pork	70%	12%	13%	26.6%
Source: China Customs Statistics					
Note: The tariffs do not change from the previous year.					

### Other Relevant Reports

#### FAS Beijing Reports

[CH8009 – Effects of Winter Storms in 2008](#)  
[CH7092 – AQSIQ Relists Six U.S. Pork Plants](#)  
[CH7080 – Dairy Annual](#)  
[CH7076 – Livestock Annual](#)